

Fairfax County Economic Index

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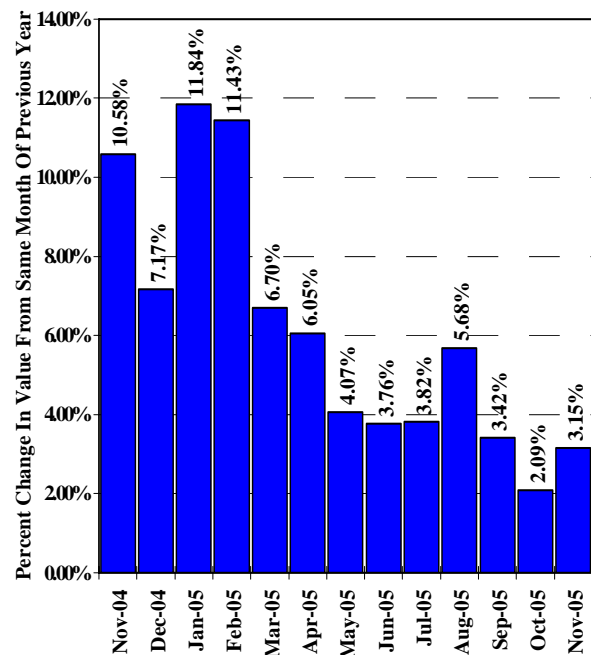
January 2006

While The Fairfax Economy Slowed In November Its Outlook for 2006 Improved

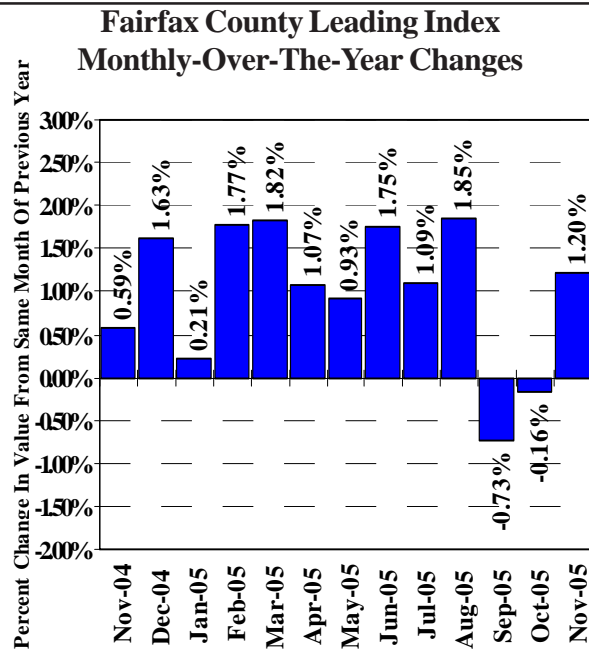
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 133.49 in November for a loss of 0.71. However, compared to November 2004, the Coincident Index was up 3.15 percent. This monthly over-the-year increase extends the Index's positive trend to a twenty-four consecutive month. In November three of the Index's four indicators were negative.

- Sales tax revenues, adjusted for inflation and seasonal variation, decreased for the third time in four months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, was also down for the third time in four months; and,
- Total employment declined after three monthly gains, while,
- Consumer confidence (in the present) turned up following two monthly declines

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 108.6 in November for a gain of 1.23 percent reversing two consecutive monthly losses. With this increase, the Index has been positive on a monthly over-the-year basis for thirty of the last thirty-two months. In November, two of the Index's three indicators contributed to its increase.

- Initial claims for unemployment insurance decreased (improved) for the third time in four months; and,
- Consumer expectations (consumer confidence six months hence) increased sharply and has now increased in two consecutive months following three monthly declines; while,
- New automobile sale fell for the third consecutive month.

The Fairfax County economy continued to seesaw in November slowing slightly from October but continuing to trend higher extending its gains to a twenty-fourth month. While the Coincident Index fell, the decline was small suggesting some off setting adjustments that should position the County's economy for growth in 2006. The Leading Index's rebound in

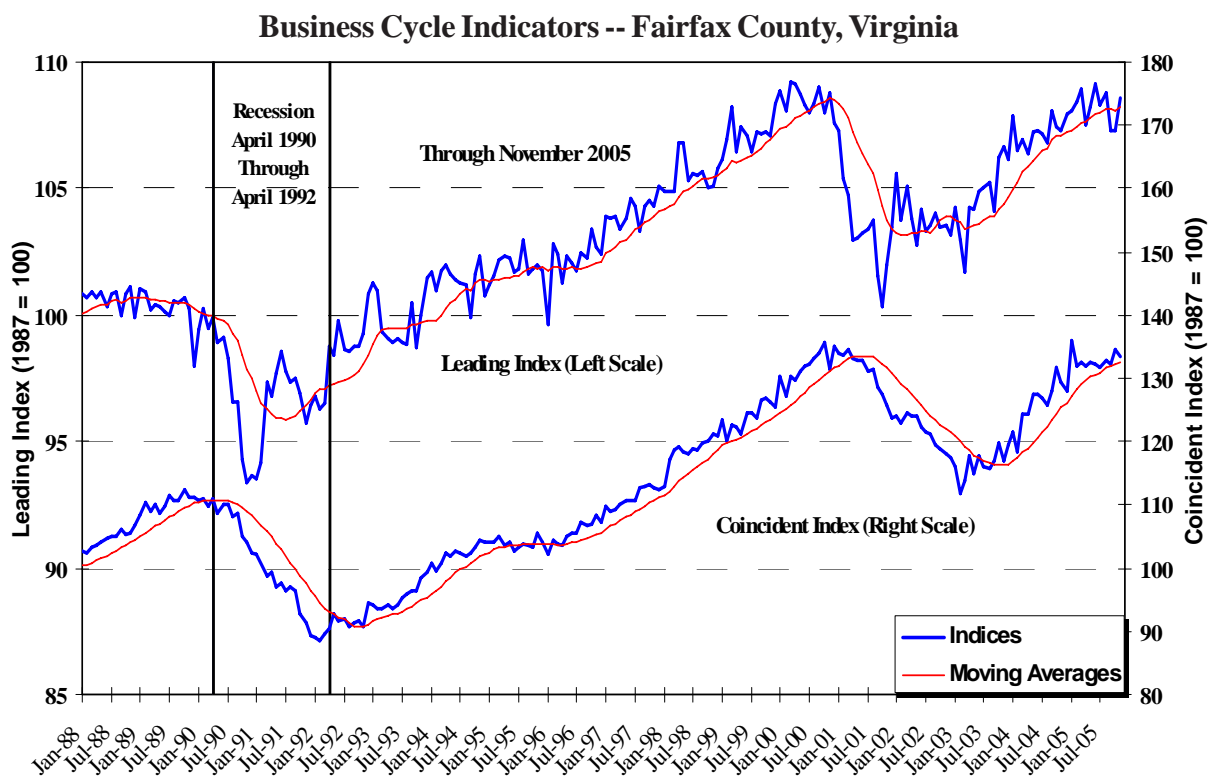
November after two monthly declines (on a monthly over-the-year basis) may point to the end of this repositioning phase in the business cycle during which the gains of the previous three years have been consolidated. If this current performance pattern parallels the last business cycle, the Leading Index will move higher over the coming year followed by a resumption of monthly increases in jobs and consumer spending. This pattern is consistent with the growth forecast for the County's economy in 2006.

CURRENT CONDITIONS

The Washington area economy continues to outperform the national economy with job growth in 2005 averaging 82,000 over twelve months, up 2.8 percent, and registering the largest gain of any metropolitan area in the country for the third consecutive year. The economic forces driving the area economy are even stronger in Fairfax County. Even though the County's employment base in November was slightly smaller than in October, its monthly over-the-year gain of 22,500 represented a 3.6 percent increase. Annualized job growth and its associated income has driven the County's expansion for three years and appears poised to continue at least through this year and probably through to the end of the decade although the growth rate will continue to slow from its 2004-2005 peak.

The strength of the County's labor force is key to its continued expansion. Besides the continuing strong job growth locally and throughout the region (approximately half of the County's employed residents work in another jurisdiction), unemployment remains low at 2.5 percent (this is higher than in November 2004), and initial claims for unemployment insurance—newly unemployed persons—fell 12.3 percent from October and was 23.2 percent lower than a year ago. Rather than job growth, the shortage of qualified workers may be the major problem in the future. The County economy has added more than 50,000 new jobs over the past three years and is projected to add more than 20,000 new jobs in 2006. Where the workers will come from to fill these jobs is unclear. If these jobs are not easily filled by qualified workers they will be lost and the economy's projected rate of growth will not be maintained.

As job growth drives consumer spending, the recent slowing of sales tax revenues seems contradictory to the other performance indicators. With con-



Source: Center for Regional Analysis, George Mason University

sumer confidence growing again and consumer expectations rebounding sharply in November, the conditions for stronger consumer spending should be present. This improved climate for consumer spending came in time to support a healthy holiday sales season. These renewed gains should be captured in the December and January sales tax data.

The decline in auto sales may also be temporarily depressing the retail market. With the easing of gasoline prices and/or the acceptance of higher gasoline, prices should get the auto industry back on track with consumer interest rising as winter turns to spring. Consumer spending continues to be a major driver of the expansion with the market softening experienced in fall and early winter is expected to give way to stronger sales during the first quarter of 2006.

NEAR-TERM OUTLOOK

The Leading Index renewed its expansion in November following a two-month retreat. This pattern is consistent with the normal mid-cycle slowdown as witnessed in early 1996. While one positive month does not constitute a trend, the forecast is for

relatively strong gains in 2006 and so the current expectation is for the Leading Index to move higher over the coming months. Key to this upward trend will be the expansion of business investment and spending for new equipment and capacity. This increased business sector spending will be matched by gains in local and state government spending. This combination of slightly slower growth in consumer spending and stronger business investment and government spending will smooth out the economy's performance in 2006 after strong annual gain in 2005 that included a weak period during the second half.

As the expansion ages over 2006 and 2007 the biggest threats will relate to realizing the economy's growth potential. Shortages of qualified workers, office space, and housing will be reflected in rising operating costs that will undermine business profits. Higher costs will also shift consumer spending away from job and income producing activities to those with lower multipliers and further weaken the expansion. Shortages and high costs are the inevitable result of a strong expansion and should be expected to become a negative force in the economy's future performance as the expansion extends into next year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Nov-05 Prelim.	Oct-05 Final	Nov-04 Final	Oct-05 to Nov-05	Nov-04 to Nov-05
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	133.49	134.43	129.41	-0.71	3.15
Leading Index (1987 = 100)	108.60	107.28	107.31	1.23	1.20
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	618,242	619,455	596,887	-0.20	3.58
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	<i>622,458</i>	<i>619,430</i>	<i>600,958</i>	<i>0.49</i>	<i>3.58</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	764	789	718	-3.12	6.35
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>1,473</i>	<i>1,400</i>	<i>1,339</i>	<i>5.18</i>	<i>10.04</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,924	9,141	9,484	-2.38	-5.91
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>12,059</i>	<i>11,739</i>	<i>12,415</i>	<i>2.73</i>	<i>-2.87</i>
South Atlantic Consumer Confidence	144.9	138.5	129.3	4.62	12.06
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,744	5,550	5,810	-14.52	-18.35
<i>Automobile Registrations (Unadjusted)</i>	<i>4,219</i>	<i>5,341</i>	<i>5,167</i>	<i>-21.01</i>	<i>-18.35</i>
Initial Unemployment Claims (Seasonally Adjusted)	790	900	1,029	-12.27	-23.22
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>711</i>	<i>828</i>	<i>926</i>	<i>-14.13</i>	<i>-23.22</i>
South Atlantic Consumer Expectations (Unadjusted)	105.3	85.5	100.3	23.16	4.99
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	602,659	603,660	588,407	-0.17	2.42
<i>Total Labor Force (Unadjusted)</i>	<i>598,597</i>	<i>598,520</i>	<i>584,441</i>	<i>0.01</i>	<i>2.42</i>
Employed Labor Force (Seasonally Adjusted)	587,598	589,671	576,921	-0.35	1.85
<i>Employed Labor Force (Unadjusted)</i>	<i>584,247</i>	<i>584,445</i>	<i>573,631</i>	<i>-0.03</i>	<i>1.85</i>
Unemployed Labor Force (Seasonally Adjusted)	15,061	13,988	11,486	7.67	31.13
<i>Unemployed Labor Force (Unadjusted)</i>	<i>14,350</i>	<i>14,075</i>	<i>10,810</i>	<i>1.95</i>	<i>32.75</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.50	2.32	1.95	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.40</i>	<i>2.35</i>	<i>1.85</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data. In September 2004, the Transient Occupancy Tax was increased from 2% to 4%. All original values prior to September 2004 were doubled for consistency.

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We are on the web at:
[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)

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